WALTON-VERONA BOARD OF EDUCATION

June 30, 2005

FINANCIAL STATEMENTS AND INDEPENDENT AUDITORS' REPORT

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INDEPENDENT AUDITORS' REPORT

State Committee for School District Audits Walton-Verona Board of Education Walton, Kentucky

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Walton-Verona Board of Education, as of and for the year ended June 30, 2005, which collectively comprise the Board's basic financial statements as listed in the table of contents. These financial statements are the responsibility of Walton-Verona Board of Education management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the audit requirements included as an appendix to the state audit contract. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Walton-Verona Board of Education, as of June 30, 2005, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

In accordance with *Government Auditing Standards*, we have also issued our report dated September 15, 2005, on our consideration of the Walton-Verona Board of Education's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis and budgetary comparison information on pages 1 through 8 and page 15, are not a required part of the basic financial statements but are supplementary information required by U.S. generally accepted accounting principles. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

State Committee for School District Audits Walton-Verona Board of Education Page Two

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Walton-Verona Board of Education basic financial statements. The combining and individual nonmajor fund financial statements are presented for purposes of additional analysis and are not a required part of the basic financial statements. The supplementary schedule of expenditures of federal awards is presented for the purpose of additional analysis as required by the U.S. Office of Management and Budget Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*, and is not a required part of the basic financial statements. The combining and individual nonmajor fund financial statements and the supplementary schedule of expenditures of federal awards have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

VonLehman & Company Inc.

Fort Mitchell, Kentucky September 15, 2005

WALTON-VERONA BOARD OF EDUCATION WALTON. KENTUCKY`

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) FOR THE FISCAL YEAR ENDED JUNE 30, 2005 UNAUDITED

As management of Walton-Verona Board of Education (Board), the governing body for the Walton-Verona School District (District), we offer readers of the Board's financial statements this narrative overview and analysis of the financial activities of the Board for the fiscal year ended June 30, 2005. We encourage readers to consider the information presented here in conjunction with additional information found within the body of the audit.

FINANCIAL HIGHLIGHTS

- The Board has included in its financial statements the cost or estimated historical cost, and the related depreciated value of its most significant capital assets, including land, buildings and improvements, vehicles, computers, and other individual property items with a cost of \$1,000 or more. At June 30, 2005, such assets totaled approximately \$13.9 million with a net depreciated value of \$9.0 million. The outstanding balance of debt incurred to acquire such assets totaled \$4.8 million. There was approximately \$2.7 million in capital asset additions in the current year, including over \$2.0 million in land and building additions, two new vehicles, and approximately \$400,000 in new technology equipment.
- The total revenues for the General Fund increased approximately \$721,000 from fiscal year 2004 to fiscal year 2005 and the revenue paid by the state under the basic SEEK program increased by approximately \$70,000 from last year.
- The 2005 expenses for wages and salaries increased approximately \$360,000 which is a 6.1% increase over last year.
- The unreserved portion of the ending balance for the General Fund increased approximately \$300,000 from 2004 to 2005. The reserved portion of \$1,000,000 for future construction remained the same at the end of both years.

OVERVIEW OF FINANCIAL STATEMENTS

This discussion and analysis is intended to serve as an introduction to the report on the Board's basic financial statements. The Board's basic financial statements comprise three components: 1) district-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. The report also contains other supplementary information in addition to the basic financial statements themselves.

District-Wide Financial Statements

The district-wide financial statements are designed to provide readers with a broad overview of the Board's finances, in a manner similar to a private-sector business.

The statement of net assets presents information on all of the Board's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Board is improving or deteriorating.

The statement of activities presents information showing how the Board's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

WALTON-VERONA BOARD OF EDUCATION WALTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) FOR THE FISCAL YEAR ENDED JUNE 30, 2005 UNAUDITED (Continued)

The district-wide financial statements outline functions of the Board that are principally supported by property taxes and intergovernmental revenues (governmental activities). The governmental activities of the Board include instruction, support services, operation and maintenance of plant, student transportation and operation of non-instructional services. Capital assets and related debt are also supported by taxes and intergovernmental revenues.

The district-wide financial statements can be found on pages 9 and 10 of this report.

Fund Financial Statements

A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. There is a state mandated uniform system and chart of accounts for all Kentucky public school boards utilizing the MUNIS administrative software. The Board uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Board can be divided into three categories: governmental, proprietary funds and fiduciary funds. Fiduciary funds are trust-type funds established to aid in student education and welfare and staff support; in the Board's case the fiduciary funds represent the activity funds held by the schools. The only proprietary fund is the food service operations. All other activities of the Board are included in the governmental funds.

The basic governmental fund financial statements can be found on pages 11 through 19 of this report.

Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 20 through 33 of this report.

District-Wide Financial Analysis

The perspective of the statement of net assets is of the Board as a whole. Table 1 provides a summary of the Board's net assets for 2005 compared to 2004:

WALTON-VERONA BOARD OF EDUCATION WALTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) FOR THE FISCAL YEAR ENDED JUNE 30, 2005 UNAUDITED (Continued)

Table 1 Net Assets

		mental vities		ss-Type <u>/ities</u>	Total			
	2004	2005	2004	2005	2004	2005		
Assets								
Current Assets	\$ 2,911,707	\$2,663,211	\$ 106,286	\$ 94,517	\$3,017,993	\$ 2,757,728		
Capital Assets, Net	<u>8,767,560</u>	<u>6,655,539</u>	234,779	<u>132,431</u>	9,002,339	6,787,728		
Total Assets	11,679,267	9,318,750	341,065	226,948	12,020,332	9,545,698		
Liabilities								
Current Liabilities	905,467	610,842	2,548	706	908,015	611,548		
Long-Term Liabilities	4,663,484	3,672,000	4,520	3,999	4,668,004	3,675,999		
Total Liabilities	<u>5,568,951</u>	4,282,842	7,068	<u>4,705</u>	<u>5,576,019</u>	4,287,547		
Net Assets Investment in Capital Assets								
Net of Related Debt	3,966,761	2,840,440	234,779	132,431	4,201,540	2,972,871		
Restricted	-	-	-	-	-	-		
Unrestricted	<u>2,143,555</u>	<u>2,195,468</u>	99,218	89,812	2,242,773	2,285,280		
Total Net Assets	\$ <u>6,110,316</u>	\$ <u>5,035,908</u>	\$ <u>333,997</u>	\$ <u>222,243</u>	\$ <u>6,444,313</u>	\$ <u>5,258,151</u>		

Over time, net assets may serve as a useful indicator of a government's financial position. In the case of the Board, assets exceeded liabilities by a total of approximately \$6.4 million as of June 30, 2005.

The largest portion of the Board's net assets reflects its investment in capital assets (e.g., land and improvements, buildings and improvements, vehicles, furniture and equipment and construction in progress), less any related debt that is still outstanding and used to acquire those assets. The Board uses these capital assets to provide services to its students; consequently, these assets are not available for future spending. Although the Board's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

The Board's financial position is the product of several financial transactions, including the net results of activities, the acquisition and payment of debt, the acquisition and disposal of fixed assets, and the depreciation of capital assets.

Total assets increased approximately \$2.5 million. Current assets increased by \$260,000, while capital assets increased by \$2.2 million. Bonds, notes, and capital lease payables increased by approximately \$1.0 million due to the issuance of \$1,295,000 in bonds.

Net assets of the Board's government activities increased \$1.1 million and the net assets of the Board's business-type activity increased \$112,000.

Table 2 reflects the change in net assets for fiscal years 2005 compared to 2004. It should be noted that on-behalf payments are included in both revenues and expenses.

WALTON-VERONA BOARD OF EDUCATION WALTON, KENTUCKY`

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) FOR THE FISCAL YEAR ENDED JUNE 30, 2005 UNAUDITED (Continued)

Table 2 Change in Net Assets

(In Thousands)

	For the Period Ending June 30,								
	Governr	mental							
	Activi	ties	Activ	<u>rities</u>	To	tal			
	2005	2004	2005	2004	2005	2004			
Revenues									
Program Revenues									
Charges for Services	\$ 97,351	\$ 91,515	\$284,213	\$265,925	\$ 381,564	\$ 357,440			
Operating Grants and									
Contributions	2,208,778	1,946,003	234,425	194,715	2,443,203	2,140,718			
Capital Grants and			00.440	0.4.400	00.440	04.400			
Contributions	-	-	22,140	24,129	22,140	24,129			
Total Program Revenues	2,306,129	2,037,518	<u>540,778</u>	<u>484,769</u>	2,846,907	2,522,287			
General Revenues									
Property Taxes	2,801,555	2,411,259	_	_	2,801,555	2,411,259			
Other Taxes	841,404	805,163	_	_	841,404	805,163			
Grants and Entitlements	3,799,772	3,718,715	_	_	3,799,772	3,718,715			
Earnings on Investments	54,340	14,695	3,652	1,061	57,992	15,756			
Miscellaneous	141,485	168,297	-	-	141,485	168,297			
Total General Revenues	7,638,556	7,118,129	3,652	1,061	7,642,208	7,119,190			
Total Revenues	9,944,685	9,155,647	544,430	<u>485,830</u>	<u>10,489,115</u>	9,641,477			
Program Expenses									
Instruction	5,147,491	4,827,132	_	_	5,147,491	4,827,132			
Supporting Services	-, , -	,- , -			-, , -	,- , -			
Student and Instructional Staff	773,586	437,841	-	-	773,586	437,841			
Administration and Business	1,074,635	1,289,570	-	-	1,074,635	1,289,570			
Operation and Maintenance of									
Plant	585,850	663,625	-	-	585,850	663,625			
Student Transportation	600,525	617,695	-	-	600,525	617,695			
Interest on Long-Term Debt	212,610	157,796	-	-	212,610	157,796			
Bond Issuance Cost and Fees	35,015	-	-	-	35,015	-			
Site Improvement	-	14,537	-	-	-	14,537			
Depreciation	465,555	401,865	-	-	465,555	401,865			
Community Education	-	-	-	-	-	-			
Food Service			<u>407,686</u>	418,647		418,647			
Total Expenses	8,895,267	8,410,061	407,686	<u>418,647</u>	9,302,953	8,828,708			
Increase in Net Assets	\$ <u>1,049,418</u>	\$ <u>745,586</u>	\$ <u>136,744</u>	\$ <u>67,183</u>	\$ <u>1,186,162</u>	\$ <u>812,769</u>			

WALTON-VERONA BOARD OF EDUCATION WALTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) FOR THE FISCAL YEAR ENDED JUNE 30, 2005 UNAUDITED (Continued)

Governmental Activities

The statement of activities reflects the cost of program services and the charges for services and sales, grants, and contributions offsetting those services. Table 3, for governmental activities, indicates the total cost of services and the net cost of services for supported by tax revenue and unrestricted state entitlements.

Table 3 Governmental Activities (In Thousands)

	For the Period Ending June 30,									
	Total Cost	of Services	Net Cost	of Services						
	2005	2004	2005	2004						
Instruction	\$ 5,147,491	\$ 4,827,132	\$ 3,620,803	\$ 3,440,853						
Supporting Services										
Student and Instructional Staff	773,586	437,841	630,335	393,899						
Administration and Business	1,074,635	1,289,570	1,014,319	1,214,243						
Plant Operation and										
Maintenance	585,850	663,625	517,994	619,684						
Student Transportation	600,525	617,695	475,973	475,237						
Facilities – Site Operations	-	14,537	(264,367)	(229,894)						
Interest on Long-Term Debt	212,610	157,796	93,511	56,656						
Bond Issuance Cost and Fees	35,015	-	35,015	-						
Depreciation	<u>465,555</u>	<u>401,865</u>	<u>465,555</u>	<u>401,865</u>						
Total Expenses	\$ <u>8,895,267</u>	\$ <u>8,410,061</u>	\$ <u>6,589,138</u>	\$ <u>6,372,543</u>						

The dependence upon tax revenues for governmental activities is apparent. Approximately 67% of instruction activities are supported through taxes and other general revenues. For all governmental activities, such revenues provide approximately 86% of the support. The community, as a whole, is the primary support for the students of the Walton-Verona School District.

Business-Type Activity

The sole business-type activity of the Board is the food service operation. The greatest portion of the revenues for this program comes from sales to students and others, totaling approximately \$285,000 and \$266,000 in 2005 and 2004, respectively. Other revenues came from Federal and state contributions, totaling \$234,425 and \$194,715 in 2005 and 2004, respectively and from commodities donated by the Federal government, valued at \$22,140 and \$24,129 in 2005 and 2004, respectively. Expenses and transfers for food service operations totaled approximately \$408,000 and \$419,000 in 2005 and 2004, respectively.

The Board continues to monitor the food service operation to ensure that it does not require large contributions from the General Fund. Prices for meals and other products sold are increased from time to time to ensure that revenues are sufficient for this operation to be self-supporting.

WALTON-VERONA BOARD OF EDUCATION WALTON, KENTUCKY`

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) FOR THE FISCAL YEAR ENDED JUNE 30, 2005 UNAUDITED (Continued)

The Board's Funds

The Board's governmental funds are accounted for using the modified accrual basis of accounting. Total governmental funds had revenues and other financing sources of approximately \$11.3 (including \$1,295,000 in proceeds from the sale of bonds) and expenditures and other financing uses of approximately \$11.3 million.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board's budget is prepared according to Kentucky law and is based on accounting for certain transactions on a basis of cash receipts, disbursements, and encumbrances. In Kentucky the public school fiscal year is July 1 through June 30. Some programs relating to federal and state grants operate on a different fiscal year but are nevertheless reflected in the overall budget.

The most significant budgeted fund is the General Fund. By law budget for the General Fund must have a minimum 2% contingency based on expenses for all funds. The Board adopted a budget with approximately \$600,000 in contingency which is in excess of this 2% requirement.

For the General Fund, actual revenues and other financing sources, in the amount of \$8.6 million, were above the budgeted revenues and other financing sources, in the amount of \$7.4 million. Of this \$1.2 million difference, most was due to conservative tax estimates and on behalf payments recorded as actual state revenue.

Expenditures and other financing uses were budgeted at \$8.3 million, while actual expenditures and other financing uses were \$8.3 million.

On-Behalf Payments and Budget Variances

The Board's financial statements show payments made by the Commonwealth of Kentucky that benefited the students or the employees of the Board. For the General Fund, these include amounts paid by the state for teacher retirement, health insurance, flexible-spending health benefit contributions, life insurance, and expenses related to the education of District students at state-operated schools. For the audited financial reports, such on-half payments were added to the Board's related revenue and expense line items. (See Note 13 – On-Behalf Payments of the accompanying Financial Statements for the years ended June 30, 2005 and 2004.)

It is notable that on-behalf payments represent state obligations and not Board obligations. Therefore, they have not been included as part of the budgeting process for the General Fund. As a result, the variances between amounts budgeted for the general fund and the actual results (see Statement of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund on page 15 of the accompany financial statements), may be skewed by on-behalf payments.

CAPITAL ASSETS AND DEBT ADMINISTRATION

Capital Assets

At the end of fiscal year 2005, the Board had a total of approximately \$9.0 million in capital assets, net of accumulated depreciation, including \$8.8 million for governmental activities and \$200,000 million for business type activities. Table 4 reflects the balances at June 30, 2005, compared to June 30, 2004:

WALTON-VERONA BOARD OF EDUCATION WALTON, KENTUCKY`

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) FOR THE FISCAL YEAR ENDED JUNE 30, 2005 UNAUDITED (Continued)

Table 4 Capital Assets at June 30 (Net of Depreciation)

		Governmental Activities		s-Type ties	Total			
	2005	2004	2005 2004		2005	2004		
Land	\$ 1,076,853	\$ 1,076,853	\$ -	\$ -	\$ 1,076,853	\$ 1,076,853		
Land Improvements Construction in	486,181	196,680	-	-	486,181	196,680		
Progress	1,772,405	68,030	-	50,981	1,772,405	119,011		
Buildings and Building								
Improvements	4,260,674	4,419,532	76,066	24,255	4,336,740	4,443,787		
Technology Equipment	586,253	371,308	-	-	586,253	371,308		
Vehicles	480,785	481,276	-	-	480,785	481,276		
General Equipment	104,409	66,850	<u>158,713</u>	32,205	263,122	99,055		
	\$ <u>8,767,560</u>	\$ <u>6,680,529</u>	\$ <u>234,779</u>	\$ <u>107,441</u>	\$ <u>9,002,339</u>	\$ <u>6,787,970</u>		

Debt

At June 30, 2005, the Board had approximately \$4.5 million in outstanding bonds being paid from the building fund and approximately \$321,000 in capital leases and notes payable being paid from the General Fund.

Current Issues

In response to state revenue shortfalls, the Board has continued to meet the needs of students by making budget adjustments in the areas of transportation and technology, virtually having to supplant former state funds. The Board has had to scale back plans for a future high school in Verona, opting instead for a new high school wing at the current site in Walton and building state-of-the-art athletic facilities at the Verona site.

Much of the general fund money which has been carried over from year to year has been earmarked for future construction, and is currently being utilized to fund the athletic facility site in Verona. Other general fund money is being used to build a new bus/maintenance facility. An additional growth nickel was added this year to help with funding the new high school wing. At June 30, 2005, there are approximately 1,150 students in the district. The starting teacher salary is \$30,767.

Walton-Verona continues to remain one of the state's premier districts, even under current budget restraints. This is due in part to rising property assessments and the district's ability to meet education mandates, as well as state salary mandates for teacher and staff salaries. How long this can continue, what with the ever increasing mandates and withering state assistance, remains to be seen.

WALTON-VERONA BOARD OF EDUCATION WALTON, KENTUCKY

MANAGEMENT'S DISCUSSION AND ANALYSIS (MD&A) FOR THE FISCAL YEAR ENDED JUNE 30, 2005 UNAUDITED (Continued)

Contacting the Board's Management

This financial report is designed to provide our citizens, taxpayers, and creditors with a general overview of the Board's finances and to reflect the Board's accountability for the funds it receives. Questions or comments about this report should be directed to Mr. William Boyle, Superintendent, by telephone at 859-485-4181 or by mail to the Central Office, 16 School Road, Walton, KY 41094.

WALTON-VERONA BOARD OF EDUCATION STATEMENT OF NET ASSETS June 30, 2005

	Governmental Activities		Business- Type Activities		Total
Assets		_		_	
Current Assets					
Cash and Cash Equivalents Accounts Receivable	\$ 2,742,389	\$	106,286	\$	2,848,675
Taxes - Current	64,990		_		64,990
Accounts	1,403		-		1,403
Intergovernmental - Indirect Federal	102,925	_		_	102,925
Total Current Assets	2,911,707	_	106,286	_	3,017,993
Noncurrent Assets					
Land and Construction in Progress	2,849,258		-		2,849,258
Depreciable Capital Assets	10,608,844		465,010		11,073,854
Less Accumulated Depreciation	(4,690,542)	_	(230,231)	_	(4,920,773)
Total Noncurrent Assets	8,767,560	_	234,779	_	9,002,339
Total Assets	\$ 11,679,267	\$_	341,065	\$_	12,020,332
Liabilities					
Current Liabilities		_		_	
Accounts Payable	\$ 512,011	\$	1,750	\$	513,761
Current Portion of Note Payable	40,000		-		40,000
Current Portion of Bond Obligations	262,000		-		262,000
Current Portion of Capital Leases Current Portion of Accumulated Sick Leave	12,591		- 798		12,591
Interest Payable	31,283 27,306		790		32,081 27,306
Deferred Revenue	20,276		_		20,276
Total Current Liabilities	905,467	_	2,548		908,015
	903,407	_	2,340	_	900,013
Noncurrent Liabilities Noncurrent Portion of Note Payable	255,000		_		255,000
Noncurrent Portion of Accumulated Sick Leave	177,276		4,520		181,796
Noncurrent Portion of Bond Obligations	4,218,000				4,218,000
Noncurrent Portion of Capital Leases	13,208	_		_	13,208
Total Noncurrent Liabilities	4,663,484	_	4,520	_	4,668,004
Total Liabilities	\$ 5,568,951	\$_	7,068	\$_	5,576,019
Net Assets					
Invested in Capital Assets, Net of Related Debt	\$ 3,966,761	\$	234,779	\$	4,201,540
Unrestricted	2,143,555	_	99,218	_	2,242,773
Total Net Assets	\$ 6,110,316	\$_	333,997	\$_	6,444,313

WALTON-VERONA BOARD OF EDUCATION STATEMENT OF ACTIVITIES Year Ended June 30, 2005

				Pr	ogram Revenu	Jes				•	pense) Rev		
Functions	Expenses		harges for Services		Operating Grants and Contributions		Capital Grants and Contributions	•	Governmental Activities		Business Type Activities	_	Total
Governmental Activities													
	\$ 5,147,491	\$	63,273	\$	1,463,415	\$	-	\$	(3,620,803)	\$	-	\$	(3,620,803)
Support Services													
Student	420,374		-		120,632		=		(299,742)		-		(299,742)
Instructional Staff	353,212		-		22,619		=		(330,593)		-		(330,593)
District Administration	588,693		-		30,158		=		(558,535)		-		(558,535)
School Administration	426,382		-		22,619		-		(403,763)		-		(403,763)
Business	59,560		-		7,539		-		(52,021)		-		(52,021)
Plant Operation and Maintenance	585,850		-		67,856		-		(517,994)		-		(517,994)
Student Transportation Facilities Acquisition and Construction	600,525		34,078		90,474		-		(475,973)		-		(475,973)
	_				264,367				264 267				264,367
Site Improvement Interest on Long-Term Debt	212.610		-		119,099		-		264,367		-		,
3	,		-		•		-		(93,511)		-		(93,511)
Bond Issuance Cost and Fees	35,015		-		-		-		(35,015)		-		(35,015)
Depreciation	465,555	_	-	-	-		-	_	(465,555)		-	-	(465,555)
Total Governmental Activities	8,895,267		97,351	_	2,208,778			_	(6,589,138)		-	_	(6,589,138)
Business-Type Activities													
Food Service	407,686		284,213	_	234,425		22,140	_	-		133,092	_	133,092
Total School District	\$ 9,302,953	\$	381,564	\$_	2,443,203	\$	22,140	\$_	(6,589,138)	\$	133,092	\$_	(6,456,046)
	General Re	venue	es:										
	Property T General Building Other Tax	Purpo						\$	2,641,729 159,826	\$	-	\$	2,641,729 159,826
	Motor Ve								250,300		_		250,300
	Utilities	00.0							564,074		_		564,074
	Other								27,030		_		27,030
		nd Sta	te Aid Not F	Restr	ricted to Specifi	c Pi	urnoses		3,799,772		_		3,799,772
	Earnings of				noted to opcom	• •	a.pocoo		54,340		3,652		57,992
	Miscellane		ooumonio						141,485				141,485
			al Revenues	s				-	7,638,556		3,652	-	7,642,208
	Chai	nae in	Net Assets	i					1,049,418		136,744	_	1,186,162
		Ū			inally Stated			_	5,035,908	•	222,243	-	5,258,151
	Prior Period	-		3	, ,				24,990		(24,990)		-
	Net Assets	•		Res	tated			_	5,060,898	•	197,253	-	5,258,151
	Net Assets	•						\$	6,110,316	\$	333,997	\$	6,444,313

WALTON-VERONA BOARD OF EDUCATION BALANCE SHEET GOVERNMENTAL FUNDS June 30, 2005

		General Fund		Special Revenue Funds	C	onstruction Fund	G	Other overnmental Funds	G	Total overnmental Funds
Assets										
Cash and Cash Equivalents	\$	2,516,417	\$	-	\$	112,174	\$	113,798	\$	2,742,389
Accounts Receivable										
Taxes - Current		64,990		-		-		-		64,990
Accounts		1,403		-		-		-		1,403
Intergovernmental - Indirect Federal	_			102,925			_	<u>-</u>		102,925
Total Assets	\$_	2,582,810	\$	102,925	\$_	112,174	\$_	113,798	\$	2,911,707
Liabilities and Equity and Fund Balances Liabilities										
Accounts Payable	\$	134,770	\$	82,649	\$	294,592	\$	-	\$	512,011
Current Portion of Accumulated Sick Leave		31,283		-		-		-		31,283
Deferred Revenue	_			20,276			_			20,276
Total Liabilities		166,053		102,925		294,592	_			563,570
Fund Balances										
Reserved for										
Site Based Carryover		1,000,000		-		-		-		1,000,000
Unreserved		, ,								
Undesignated, Reported in										
General Fund		1,416,757		-		-		113,798		1,530,555
Construction Fund	_					(182,418)	_		_	(182,418)
Total Fund Balances	_	2,416,757	_		_	(182,418)	_	113,798		2,348,137
Total Liabilities and Fund Balances	\$_	2,582,810	\$	102,925	\$	112,174	\$_	113,798	\$	2,911,707

WALTON-VERONA BOARD OF EDUCATION RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS TO THE STATEMENT OF NET ASSETS June 30, 2004

Amounts reported for governmental activities in the statement of net assets are different because:

Total Fund Balance - Governmental Funds			\$ 2,348,137
Capital assets used in governmental activities are not financial resources and therefore are not reported as assets in governmental funds. Cost of Capital Assets Accumulated Depreciation	\$ _	13,458,102 (4,690,542)	8,767,560
Long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported as liabilities in the funds. Long-term liabilities at year end consist of: Bond Obligations Note Payable Capital Leases Accrued Interest on the Bonds Noncurrent Accumulated Sick Leave	_	4,480,000 295,000 25,799 27,306 177,276	 (5,005,381)
Total Net Assets - Governmental Activities			\$ 6,110,316

WALTON-VERONA BOARD OF EDUCATION STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE GOVERNMENTAL FUNDS Year Ended June 30, 2005

	General Fund	Special Revenue Funds	Construction Fund	Other Governmental Funds	Total Governmental Funds
Revenues From Local Sources Taxes					
	\$ 2,641,729 250,300 564,074 27,030 35,463 34,078 52,979 169,295 4,855,306	\$ - - - - - - 230,358 539,420	\$ - - - - 1,362 - -	\$ 159,826 - - - - - - - - - - - - - - - - - - -	\$ 2,801,555 250,300 564,074 27,030 35,463 34,078 54,341 169,295 5,469,130 539,420
Total Revenues	8,630,254	769,778	1,362	543,292	9,944,686
Expenditures Current Instruction	4,606,359	768,667	_	_	5,375,026
Support Services Student Instructional Staff District Administration School Administratior Business Plant Operation & Maintenance Student Transportatior Facilities Acquisition and Construction	420,375 353,212 886,946 425,370 59,560 728,566 708,152	15,184 - - - - - 43,646	- - - - - - -	- - - - - - -	420,375 353,212 902,130 425,370 59,560 728,566 751,798
Site Improvement Debt Service	46,860	<u> </u>	1,685,361 	- 461,389	1,685,361 508,249
Total Expenditures	8,235,400	827,497	1,685,361	461,389	11,209,647
Excess (Deficit) of Revenues Over Expenditures	394,854	(57,719)	(1,683,999)	81,903	(1,264,961)
Other Financing Sources (Uses Proceeds from Sale of Bonds Bond Issuance Cost and Fees Operating Transfers In Operating Transfers Out	- - - (57,719)	57,719	1,295,000 (35,015) -	- - - -	1,295,000 (35,015) 57,719 (57,719)
Total Other Financing Sources (Uses	(57,719)	57,719	1,259,985		1,259,985
Excess (Deficit) of Revenues and Other Financing Sources Over Expenditure: and Other Financing Use:	337,135	-	(424,014)	81,903	(4,976)
Fund Balance July 1, 2004, as Originally State	2,127,523	-	241,596	(16,006)	2,353,113
Prior Period Adjustment	(47,901)			47,901	
Fund Balance July 1, 2004, as Restated	2,079,622		241,596	31,895	2,353,113
Fund Balance June 30, 200!	\$ <u>2,416,757</u>	\$	\$ (182,418)	\$ <u>113,798</u>	\$ 2,348,137

WALTON-VERONA BOARD OF EDUCATION RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES GOVERNMENTAL FUNDS TO THE DISTRICT-WIDE STATEMENT OF ACTIVITIES Year Ended June 30, 2004

Amounts reported for governmental activities in the statement of activities are different because:

activities are different because:				
Total Net Change in Fund Balances - Governmental Funds			\$	(4,976)
Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, for governmental activities those costs are shown in the statement of net assets and allocated over their estimated useful lives as annual depreciation expense in the statement of activities. This is the amount by which capital outlays exceed depreciation in the period.				
Capital Outlays	\$	2,552,586		
Depreciation Expense	_	(465,555)		2,087,031
Proceeds from the sale of bonds is a revenue in the governmental funds, but it increases long-term liabilities in the statement of net				
assets and does not affect the statement of activities.				(1,295,000)
leterest on lengthouse debt in the statement of activities different room				
Interest on long-term debt in the statement of activities differs from the amount reported in the governmental funds because interest				
is recorded as an expenditure in the funds when it is due, and				
thus requires the use of current financial resources. In the				
statement of activities, however, interest expense is recognized as the interest accrues, regardless of when it is due. The				
additional interest reported in the statement of activities is a				
result of the change in accrued interest on bonds.				2,138
In the statement of activities, compensated absences (sick leave)				
are measured by the amounts earned during the year. In the				
governmental funds, however, expenditures for these items are measured by the amount of financial resources used (essentially,				
the amounts actually paid). The additional revenue reported in				
the statement of activities is a result of the change in long-term				(12)
accumulated sick leave.				(49,075)
Repayment of bond, note, and capital lease principal is an				
expenditure in the governmental funds, but it reduces long-term liabilities in the statement of net assets and does not affect the				
statement of activities.				309,300
			_	•
Total Change in Net Assets - Governmental Activities			\$	1,049,418
5			· =	, -,

WALTON-VERONA BOARD OF EDUCATION STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE BUDGET AND ACTUAL GENERAL FUND

Year Ended June 30, 2005

Variance

							warrance with Final Budget
		Budgete	d A	mounts			Favorable
	_	Original	_	Final	_	Actual	(Unfavorable)
Revenues From Local Sources Taxes			-		-		
Property Motor Vehicle Utilities Other Tuition and Fees Transportation Fees	\$	2,590,597 265,168 480,000 27,030 35,000 36,268	\$	2,590,597 265,168 480,000 27,030 35,000 36,268	\$	2,641,729 250,300 564,074 27,030 35,463 34,078	\$ 51,132 (14,868) 84,074 - 463 (2,190)
Earnings on Investments Other Local Revenue Intergovernmental - State	_	13,500 115,000 3,846,305	-	13,500 115,000 3,846,305	-	52,979 169,295 4,855,306	39,479 54,295 1,009,001
Total Revenues		7,408,868		7,408,868		8,630,254	1,221,386
Expenditures Current	_		-		-		
Instruction Support Services		4,074,132		4,074,132		4,606,359	(532,227)
Student		329,264		329,264		420,375	(91,111)
Instructional Staff		336,586		336,586		353,212	(16,626)
District Administration		1,699,274		1,699,274		886,946	812,328
School Administration		400,339		400,339		425,370	(25,031)
Business		51,760		51,760		59,560	(7,800)
Plant Operation & Maintenance		754,475		754,475		728,566	25,909
Student Transportation		633,106		633,106		708,152	(75,046)
Facilities Acquisition and Construction							
Site Improvement		-		-		-	-
Debt Service	_		-			46,860	(46,860)
Total Expenditures	_	8,278,936	-	8,278,936		8,235,400	43,536
(Deficit) Excess of Revenues Over Expenditures	_	(870,068)		(870,068)	-	394,854	1,177,850
Other Financing Sources (Uses) Operating Transfers Out	_					(57,719)	(57,719)
Total Other Financing Sources (Uses)	_		-			(57,719)	(57,719)
(Deficit) Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	_	(870,068)	-	(870,068)	-	337,135	1,120,131
Fund Balance July 1, 2004, as Originally Stated		869,068		869,068		2,127,523	1,081,165
Prior Period Adjustment			-		-	(47,901)	(47,901)
Fund Balance July 1, 2004, as Restated	_	869,068	-	869,068		2,079,622	1,033,264
Fund Balance June 30, 2005	\$_	(1,000)	\$	(1,000)	\$	2,416,757	\$ 2,153,395

WALTON-VERONA BOARD OF EDUCATION STATEMENT OF NET ASSETS PROPRIETARY FUND June 30, 2005

	-	Business-Type Activities Food Service Fund
Assets	-	
Current Assets		
Cash and Cash Equivalents	\$_	106,286
Noncurrent Assets		
Depreciable Capital Assets		465,010
Less Accumulated Depreciation	-	(230,231)
Total Noncurrent Assets	-	234,779
Total Assets	\$ ₌	341,065
Liabilities Current Liabilities Accounts Payable Current Portion of Accumulated Sick Leave	\$	1,750 798
Total Current Liabilites	-	2,548
Noncurrent Liabilities		
Noncurrent Portion of Accumulated Sick Leave	-	4,520
Total Liabilities	-	7,068
Net Assets		
Invested in Capital Assets		234,779
Unrestricted	-	99,218
Total Net Assets	\$ <u>_</u>	333,997

WALTON-VERONA BOARD OF EDUCATION STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS PROPRIETARY FUND

Year Ended June 30, 2005

	Business-Type Activities
	Food Service Fund
Operating Revenues	
Lunchroom Sales \$	284,213
Operating Expenses	
Salaries and Wages	181,887
Employee Benefits	126,171
Contract Services	11,985
Materials and Supplies	80,123
Depreciation	7,520
Total Operating Expenses	407,686
Operating Loss	(123,473)
Non-Operating Revenues	
Federal Grants	130,230
Donated Commodities	22,140
State Grants	104,195
Interest Income	3,652
Total Non-Operating Revenues	260,217
Change in Net Assets	136,744
Net Assets July 1, 2004, as Originally Stated	222,243
Prior Period Adjustment	(24,990)
Net Assets July 1, 2004, as Restated	197,253
Net Assets June 30, 2005	333,997

WALTON-VERONA BOARD OF EDUCATION STATEMENT OF CASH FLOWS PROPRIETARY FUND

Year Ended June 30, 2005

		Activities ood Service
Cash Flows From Operating Activities		Fund
Cash Received from Lunchroom Sales Cash Paid to/for	\$	284,213
Employees Supplies Other Activities		(209,431) (191,091) (11,985)
Net Cash Used by Operating Activities		(128,294)
Cash Flows from Non Capital Financing Activities		
Federal Grants State Grants		130,230 6,181
Net Cash Provided by Non Capital Financing Activities		136,411
Cash Flows from Investing Activities Interest Income		3,652
Net Change in Cash		11,769
Cash and Cash Equivalents July 1, 2004		94,517
Cash and Cash Equivalents June 30, 2005	\$	106,286
Reconciliation of Operating Loss to Net Cash Used by Operating Activities Operating Loss	\$	(123,473)
Adjustments to Reconcile Operating Loss to Net Cash Used by Operating Activities		
Depreciation		7,520
Capital Asset Purchase Donated Commodities Received from Federal Government		(134,858) 22,140
On-Behalf Payments for Salaries and Benefits Paid Directly by the State Change in Assets and Liabilities		98,014
Accounts Payable Accumulated Sick Leave		1,750 613
Net Cash Used by Operating Activities	\$	(128,294)
Non-Cash Non-Capital Financing Activities Donated Commodities Received from Federal Government	\$	22,140
Other Non-Cash Transactions On-Behalf Payments for Salaries and Benefits Paid Directly by the State	\$ <u></u>	98,014

WALTON-VERONA BOARD OF EDUCATION STATEMENT OF FIDUCIARY NET ASSETS FIDUCIARY FUNDS June 30, 2005

	_	Agency Fund
Assets and Resources Cash and Cash Equivalents	\$_	116,825
Liabilities Due to Student Groups		
High School Activity Funds Elementary Activity Funds	_	93,753 23,072
Total	\$ <u>_</u>	116,825
Net Assets Held in Trust	\$_	

WALTON-VERONA BOARD OF EDUCATION NOTES TO THE FINANCIAL STATEMENTS

NOTE 1 – REPORTING ENTITY

The Walton-Verona Board of Education (Board), a five member group, is the level of government which has oversight responsibilities over all activities related to public elementary and secondary school education within the jurisdiction of the Walton-Verona Independent School District. The Board receives funding from local, state and federal government sources and must comply with the commitment requirements of these funding source entities. However, the Board is not included in any other governmental "reporting entity" as defined in Section 2100, Codification of Governmental Accounting and Financial Reporting Standards as Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to develop policies which may influence operations and primary accountability for fiscal matters.

The Board, for financial purposes, includes all of the funds and account groups relevant to the operation of the Walton-Verona Board of Education. The financial statements presented herein do not include funds of groups and organizations, which although associated with the school system, have not originated within the Board itself such as Band Boosters, Parent-Teacher Associations, etc.

The financial statements of the Board include those of separately administered organizations that are controlled by or dependent on the Board. Control or dependence is determined on the basis of budget adoption, funding and appointment of the respective governing board.

Based on the foregoing criteria, the financial statements of the following organization are included in the accompanying financial statements:

Walton-Verona School District Finance Corporation

The Board authorized establishment of the Walton-Verona School District Finance Corporation. It is a non-stock, non-profit public and charitable corporation pursuant to Section 162.385 of the School Bond Act and Chapter 273 and Section 58.180 of the Kentucky Revised Statutes to act as an agency of the Board for financing the costs of school building facilities. The Board of Directors of the Corporation shall be the same persons who are at any time the members of the Board of Education of the Walton-Verona School District.

NOTE 2 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of certain significant accounting policies followed in the preparation of these financial statements.

Basis of Presentation

District-Wide Financial Statements - The statement of net assets and the statement of activities display information about the Board as a whole. These statements include the financial activities of the primary government, except for fiduciary funds. The statements distinguish between those activities of the Board that are governmental and those that are considered business-type activities.

The district-wide statements are prepared using the economic resources measurement focus. This is the same approach used in the preparation of the proprietary fund financial statements but differs from the manner in which governmental fund financial statements are prepared. Governmental fund financial statements therefore include reconciliations with brief explanations to better identify the relationship between the district-wide statements and the statements for governmental funds.

The district-wide statement of activities presents a comparison between direct expenses and program revenues for each segment of the business-type activities of Board and for each function or program of the Board's governmental activities. Direct expenses are those that are specifically associated with a service, program or department and are therefore clearly identifiable to a particular function. Program revenues include charges paid by the recipient of the goods or services offered by the program and grants and contributions that are restricted to meeting the operational or capital requirements of a particular program. Revenues that are not classified as program revenues are presented as general revenues of the Board, with certain limited exceptions. The comparison of direct expenses with program revenues identifies the extent to which each business segment or governmental function is self-financing or draws from the general revenues of the Board.

Fund Financial Statements - Fund financial statements report detailed information about the Board. The focus of governmental and proprietary fund financial statements is on major funds rather than reporting funds by type. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by fund type.

The accounting and reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a flow of current financial resources measurement focus. The financial statements for governmental funds are a balance sheet, which generally includes only current assets and current liabilities, and a statement of revenues, expenditures and changes in fund balances, which reports on the changes in net total assets. Proprietary funds and fiduciary funds are reported using the economic resources measurement focus. The statement of cash flows provides information about how the Board finances and meets the cash flow needs of its proprietary activities.

The Board has the following funds:

I. Governmental Fund Types

- (A) The General Fund is the main operating fund of the Board. It accounts for financial resources used for general types of operations. This is a budgeted fund, and any unrestricted fund balances are considered as resources available for use. This is a major fund of the Board.
- (B) The Special Revenue (Grant) Funds account for proceeds of specific revenue sources (other than expendable trusts or major capital projects) that are legally restricted to disbursements for specified purposes. It includes federal financial programs where unused balances are returned to the grantor at the close of the specified project periods as well as the state grant programs. Project accounting is employed to maintain integrity for the various sources of funds. The separate projects of federally-funded grant programs are identified in the Schedule of Expenditures of Federal Awards included in this report on page 44. This is a major fund of the Board.
- (C) Capital Project Funds are used to account for financial resources to be used for the acquisition or construction of major capital facilities and equipment (other than those financed by Proprietary Fund).
 - 1. The Support Education Excellence in Kentucky (SEEK) Capital Outlay Fund receives those funds designated by the state as Capital Outlay Funds and is restricted for use in financing projects identified in the Board's facility plan.
 - 2. The Facility Support Program of Kentucky (FSPK) accounts for funds generated by the building tax levy required to participate in the School Facilities Construction Commission's construction funding and state matching funds, where applicable. Funds may be used for projects identified in the Board's facility plan.

- 3. The Construction Fund accounts for proceeds from sales of bonds and other revenues to be used for authorized construction and/or remodeling. This is a major fund of the Board.
- (D) The Debt Service Funds are used to account for the accumulation of resources for and the payment of, general long-term debt principal and interest and related cost; and for the payment of interest on general obligation notes payable as required by Kentucky Law.

II. Proprietary Fund Types (Enterprise Fund)

The Food Service Fund is used to account for school food service activities, including the National School Lunch Program, which is conducted in cooperation with the U.S. Department of Agriculture (USDA). Amounts have been recorded for in-kind contribution of commodities from the USDA. The Food Service Fund is a major fund.

The Board applies all GASB pronouncements to proprietary funds as well as the Financial Accounting Standards Board pronouncements issued on or before November 30, 1989, unless those pronouncements conflict with or contradict GASB pronouncements.

III. Fiduciary Fund Type (Agency Fund)

The Agency fund accounts for activities of student groups and other types of activities requiring clearing accounts. These funds are accounted for in accordance with the <u>Uniform</u> Program of Accounting for School Activity Funds.

Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. District-wide financial statements are prepared using the accrual basis of accounting. Governmental funds use the modified accrual basis of accounting. Proprietary and fiduciary funds also use the accrual basis of accounting.

Revenues - Exchange and Non-exchange Transactions - Revenues resulting from exchange transactions, in which each party receives essentially equal value, are recorded on the accrual basis when the exchange takes place. On a modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and available. Available means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Board available means expected to be received within sixty days of the fiscal year-end.

Non-exchange transactions, in which the Board receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On an accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Board must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Board on a reimbursement basis. On a modified accrual basis, revenues from non-exchange transactions must also be available before they can be recognized.

Deferred Revenue - Deferred revenue arises when assets are recognized before revenue recognition criteria have been satisfied.

Grants and entitlements received before the eligibility requirements are met are recorded as deferred revenue.

Expenses/Expenditures - On the accrual basis of accounting, expenses are recognized at the time they are incurred. The fair value of donated commodities used during the year is reported in the statement of revenues, expenses, and changes in net assets as an expense with a like amount reported as donated commodities revenue. Unused donated commodities are reported as deferred revenue.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation, are not recognized in governmental funds.

Property Taxes

Property Tax Revenues - Property taxes are levied each September on the assessed value listed as of the prior January 1, for all real and personal property in the county. The billings are considered due upon receipt by the taxpayer; however, the actual date is based on a period ending 30 days after the tax bill mailing. Property taxes collected are recorded as revenues in the fiscal year for which they were levied. All taxes collected are initially deposited into the General Fund and then transferred to the appropriate fund.

The property tax rates assessed for the year ended June 30, 2005, to finance the General Fund operations were \$.966 per \$100 valuation for real property, \$.966 per \$100 valuation for business personal property and \$.907 per \$100 valuation for motor vehicles.

The Board levies a utility gross receipts license tax in the amount of 3% of the gross receipts derived from the furnishings, within the county, of telephonic and telegraphic communications services, cablevision services, electric power, water, and natural, artificial and mixed gas.

Capital Assets

General capital assets are those assets not specifically related to activities reported in the proprietary funds. These assets generally result from expenditures in the governmental funds. These assets are reported in the governmental activities column of the district-wide statement of net assets but are not reported in the fund financial statements. Capital assets utilized by the proprietary funds are reported both in the business-type activities column of the district-wide statement of net assets and in the respective funds.

All capital assets are capitalized at cost (or estimated historical cost) and updated for additions and retirements during the year. Donated fixed assets are recorded at their fair market values as of the date received. The Board maintains a capitalization threshold of one thousand dollars with the exception of computers, digital cameras and real property for which there is no threshold. The Board does not possess any infrastructure. Improvements are capitalized; the cost of normal maintenance and repairs that do not add to the value of the asset or materially extend an assets life are not.

All reported capital assets are depreciated. Improvements are depreciated over the remaining useful lives of the related capital assets. Depreciation is computed using the straight-line method over the following useful lives for both general capital assets and proprietary fund assets:

Description	Governmental Activities <u>Estimated Lives</u>
Buildings and Building Improvements	25-50 Years
Land Improvements	20 Years
Technology Equipment	5 Years
Vehicles	5-10 Years
General Equipment	10 Years

Accumulated Unpaid Sick Leave Benefits

Upon retirement from the school system, an employee will receive from the Board an amount equal to 30% of the value of accumulated sick leave.

Sick leave benefits are accrued as a liability using the termination payment method. An accrual for earned sick leave is made to the extent that it is probable that the benefits will result in termination payments. The liability is based on the Board's past experience of making termination payments.

The entire compensated absence liability is reported on the district-wide financial statements.

For governmental fund financial statements the current portion of unpaid accrued sick leave is the amount expected to be paid using expendable available resources. These amounts are recorded in the account "accumulated sick leave payable" in the general fund. The non-current portion of the liability is not reported.

Budgetary Process

Budgetary Basis of Accounting - The Board's budgetary process accounts for certain transactions on a basis other than Generally Accepted Accounting Principles (GAAP). The major differences between the budgetary basis and the GAAP basis are:

Revenues are recorded when received in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Expenditures are recorded when paid in cash (budgetary) as opposed to when susceptible to accrual (GAAP).

Once the budget is approved, it can be amended. Amendments are presented to the Board at their regular meetings. All budget amendments require Board approval. Such amendments are made before the fact, are reflected in the official minutes of the Board, and are not made after fiscal yearend as dictated by law.

Each budget is prepared and controlled by the budget coordinator at the revenue and expenditure function/object level. All budget appropriations lapse at year-end.

Accrued Liabilities and Long-Term Obligations

All payables, accrued liabilities and long-term obligations are reported in the district-wide financial statements, and all payables, accrued liabilities and long-term obligations payable from proprietary funds are reported on the proprietary fund financial statements.

In general, payables and accrued liabilities that will be paid from governmental funds are reported on the governmental fund financial statements regardless of whether they will be liquidated with current resources. However, claims and judgments, the non-current portion of capital leases, accumulated sick leave, contractually required pension contributions and special termination benefits that will be paid from governmental funds are reported as a liability in the fund financial statements only to the extent that they will be paid with current, expendable, available financial resources. In general, payments made within sixty days after year-end are considered to have been made with current available financial resources. Bonds and other long-term obligations that will be paid from governmental funds are not recognized as a liability in the fund financial statements until due.

Fund Balance Reserves

The Board reserves those portions of fund equity which are legally segregated for a specific future use or which do not represent available expendable resources and therefore are not available for appropriation or expenditure. Unreserved fund balance indicates that portion of fund equity which is available for appropriation in future periods. Fund equity reserves have been established for site-based carryover.

Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets, net of related debt consists of capital assets, net of accumulated depreciation, reduced by the outstanding balances of any borrowings used for the acquisition, construction or improvement of those assets. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Board or through external restrictions imposed by creditors, grantors or laws or regulations of other governments.

Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the proprietary funds. For the Board, those revenues are primarily charges for meals provided by the various schools.

Use of Estimates

The process of preparing financial statements in conformity with U.S. generally accepted accounting principles requires management to make estimates and assumptions that affect reported amounts of assets, liabilities, designated fund balances, and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

Cash and Cash Equivalents

The Board considers demand deposits, money market funds, and other investments with an original maturity of ninety days or less, to be cash equivalents.

Encumbrances

Encumbrances are not liabilities and therefore, are not recorded as expenditures until receipt of material or service. For budgetary purposes, appropriations lapse at fiscal year-end and outstanding encumbrances at year-end are re-appropriated in the next year. Accordingly, no differences exist between actual results and the applicable budgetary data presented in the accompanying combined financial statements.

NOTE 3 – CASH AND CASH EQUIVALENTS

The carrying amount of the Board's deposits with financial institutions was \$2,965,500 and the bank balance was \$2,834,398. Of that amount, \$100,000 was insured by the FDIC. The remainder is collateralized with securities held by the financial institution and pledged to collateralize the Board's deposits. Cash and cash equivalents are funds temporarily invested in securities with a maturity of 90 days or less.

Cash and cash equivalents at June 30, 2005 consisted of the following:

	Bank <u>Balances</u>	Book <u>Balances</u>
Bank – Checking Accounts Bank – Super Now Account Bank – Escrow	\$ 2,511,562 210,662 112,174	\$ 2,736,501 116,825 112,174
	\$ <u>2,834,398</u>	\$ <u>2,965,500</u>
Breakdown per financial statements:		
Governmental Funds Proprietary Funds Agency Funds		\$ 2,742,389 106,286 116,825
		\$ <u>2,965,500</u>

NOTE 4 - CAPITAL ASSETS

Capital asset activity for the fiscal year ended June 30, 2005 was as follows:

	Balance			Balance
Governmental Activities	July 1, 2004	Additions	<u>Deduction</u>	June 30, 2005
Fund Palanas, Juna 20, 2004				
Fund Balance June 30, 2004 Land	¢ 4.076.052	\$ -	\$ -	¢ 4.076.052
—··	\$ 1,076,853	*	Ф -	\$ 1,076,853
Construction in Progress	68,030	1,704,375		1,772,405
Total Capital Assets Not Being Depreciated	<u>1,144,883</u>	<u>1,704,375</u>		2,849,258
Depreciable Capital Assets				
Land Improvements	291,712	313,437	_	605,149
Buildings and Building Improvements	6,936,073	-	_	6,936,073
Technology Equipment	1,135,391	390,739	_	1,526,130
Vehicles	1,267,134	97,364	_	1,364,498
General Equipment	130,323	46,671	_	176,994
Total Depreciable Capital Assets	9,760,633	848,211		10,608,844
·				
Total Capital Assets at Historical Cost	10,905,516	2,552,586		13,458,102
Less Accumulated Depreciation				
Land Improvements	95,032	23,936	_	118,968
Buildings and Building Improvements	2,516,541	158,858	_	2,675,399
Technology Equipment	764,083	175,794	_	939,877
Vehicles	785,859	97,854	_	883,713
General Equipment	63,472	9,113	_	72,585
Total Accumulated Depreciation	4,224,987	465,555		4,690,542
Depresiable Capital Assets Not	E EDE 646	202.656		E 040 202
Depreciable Capital Assets, Net	5,535,646	382,656	-	5,918,302
Governmental Activities				
Capital Assets – Net	\$ <u>6,680,529</u>	\$ <u>2,087,031</u>	\$ <u> </u>	\$ <u>8,767,560</u>

NOTE 4 – CAPITAL ASSETS (Continued)

Business-Type Activities	Balance July 1, 2004	Additions	<u>Deduction</u>	Balance June 30, 2005
Capital Assets Not Being Depreciated Construction in Progress	\$ <u>50,981</u>	\$ <u> </u>	\$ <u>(50,981</u>)	\$ <u> </u>
Depreciable Capital Assets				
Buildings and Building Improvements	96,000	50,981	-	146,981
Technology Equipment	1,133	-	-	1,133
General Equipment	182,038	134,858	<u>-</u>	316,896
Total Capital Assets at Historical Cost	279,171	185,839		465,010
Less Accumulated Depreciation				
Building and Building Improvements	71,745	(830)	-	70,915
Technology Equipment	1,133	-	-	1,133
General Equipment	149,833	8,350	<u>-</u>	158,153
Total Accumulated Depreciation	222,711	7,520		230,231
Business-Type Activities				
Capital Assets – Net	\$ <u>107,441</u>	\$ <u>178,319</u>	\$ <u>(50,981</u>)	\$ <u>234,779</u>

Depreciation expense was not allocated to governmental functions. It appears on the statement of activities as "unallocated".

NOTE 5 – INTERFUND RECEIVABLES AND PAYABLES

There were no interfund balances at June 30, 2005.

NOTE 6 – DEBT AND LEASE OBLIGATIONS

The amount shown in the accompanying financial statements as bond obligations represent the Board's future obligations to make bond payments relating to the bonds issued by the City of Walton, Kentucky and the Walton-Verona School District Finance Corporation aggregating \$4,480,000.

The amount shown in the accompanying financial statements as capital lease obligations represent the principal portion of the Board's future obligations to make lease payments relating to a capital lease entered into with the Kentucky Interlocal School Transportation Association (KISTA) aggregating \$25,799.

The following is a summary of the Board's long-term debt transactions for the year ended June 30, 2005.

	Debt Outstanding July 1, 2004	Additions of New Debt	Repayments	Debt Outstanding June 30, 2005	Amount Expected to be Paid Within One Year
Governmental Activities General Obligation Bonds	\$ <u>3,445,000</u>	\$_ 1,295,000	\$ 260,000	\$ 4,480,000	\$ 262,000
Note Payable KISTA	\$ 330,000	\$ -	\$ 35,000	\$ 295,000	\$ 40,000
Capital Lease	\$ 40,099	\$	\$ 14,300	\$ 25,799	\$ <u>12,591</u>

NOTE 6 – DEBT AND LEASE OBLIGATIONS (Continued)

The repayments and defeasance of general obligation bonds includes \$190,635 repaid by the Board, and \$69,365 repaid by the Kentucky School Facility Construction Commission. The payments on bonds are made by the building fund.

Bonds

The Board, through the General Fund (including utility taxes), Building (FSPK) Fund, and the SEEK Capital Outlay Fund is obligated to make lease payments in amounts sufficient to satisfy debt service requirements on bonds issued by the City of Walton to construct school facilities. The Board has an option to purchase the property under lease at any time by retiring the bonds then outstanding. The proceeds from certain refunding issues have been placed in escrow accounts to be used to service the related debt.

The Board has entered into "participation agreements" with the Kentucky School Facility Construction Commission. The Commission was created by the Kentucky Legislature for the purpose of assisting local school districts in meeting school construction needs. The table below sets forth the amount to be paid by the Board and the Commission for each year until maturity of all bond issues. The liability for the total bond amount remains with the Board and, as such, the total principal outstanding has been recorded in the financial statements.

The original amount of outstanding issues, the issue dates, interest rates and outstanding balances at June 30, 2005 are summarized below:

<u>Issue</u>	Original Amount	Board's Portion	Interest Rates	utstanding Balance ne 30, 2005
October 1, 1996	175,000	125,000	4.80-5.65%	\$ 135,000
December 1, 1997	630,000	425,183	4.20-5.00%	475,000
December 1, 1999	505,000	67,703	4.00-5.10%	395,000
January 1, 2002 - A	890,000	890,000	4.25-5.25%	855,000
January 1, 2002 - B	435,000	183,348	3.50-4.50%	270,000
December 1, 2002 - C	1,130,000	1,072,179	1.50-3.90%	1,095,000
July 1, 2004	1,295,000	1,087,042	2.70-9.00%	 1,255,000
				\$ 4,480,000

The bonds may be called prior to maturity at dates and redemption premiums specified in each issue. Assuming no issues are called prior to maturity, the minimum obligations of the Board, including amounts to be paid by the Commission at June 30, 2005 for debt service, (principal and interest) are as follows:

NOTE 6 - DEBT AND LEASE OBLIGATIONS (Continued)

Fiscal					
Year Ended	Board's	s Portion	KSFC	C Portion	Total
<u>June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>	<u>Interest</u>	<u>Principal</u>
2005-06	\$ 192,721	\$ 145,802	\$ 69,279	\$ 46,187	\$ 262,000
2006-07	202,950	140,076	72,050	42,539	275,000
2007-08	187,850	133,630	97,150	39,565	285,000
2008-09	205,715	119,436	89,285	43,655	295,000
2009-10	219,432	116,552	66,568	34,967	286,000
2010-11	227,216	112,692	68,784	27,249	296,000
2011-12	235,689	102,633	56,311	26,414	292,000
2012-13	246,637	90,217	55,363	27,219	302,000
2013-14	167,319	75,333	44,681	29,917	212,000
2014-15	166,662	77,102	56,338	17,173	223,000
2015-16	178,642	69,463	59,358	14,196	238,000
2016-17	181,080	60,706	62,920	11,210	244,000
2017-18	187,101	53,267	57,899	8,078	245,000
2018-19	174,567	44,733	45,433	5,552	220,000
2019-20	177,207	36,321	12,793	3,284	190,000
2020-21	186,593	27,710	13,407	2,670	200,000
2021,22	195,951	18,534	14,049	2,026	210,000
2022-23	88,275	8,898	11,725	1,352	100,000
2023-24	<u>89,690</u>	<u>4,485</u>	<u> 15,310</u>	<u>766</u>	105,000
Totals	\$ <u>3,511,297</u>	\$ <u>1,437,590</u>	\$ <u>968,703</u>	\$ <u>384,019</u>	\$ <u>4,480,000</u>

Kentucky Interlocal School Transportation Association (KISTA) Loan

In November, 2002, the Board entered into a loan agreement with KISTA to be used for the purchase of land. Interest payments, at rates varying between 2.60% and 4.75%, are due semi-annually. Principal payments are to be made in December of each year. The future principal payment schedule is as follows:

Year EndingJune 30,_		
2006	\$	40,000
2007		40,000
2008		40,000
2009		40,000
2010		45,000
Thereafter	_	90,000
Total	\$	295,000

Capital Leases

The Board leases buses under capital leases with KISTA. The lease expires on March 1, 2007 and has varying annual payments.

The following is an analysis of the leased property under capital leases:

Class of Property	June 30, 2005
Buses	
Cost	\$ 119,774
Accumulated Depreciation	101,808
Net Book Value	\$ <u>17,966</u>

NOTE 6 – DEBT AND LEASE OBLIGATIONS (Continued)

The following is a schedule by years of the future minimum lease payments under capital lease together with the present value of the net minimum lease payments as of June 30, 2005.

Year Ending	Capital Lease Payable	
2006 2007	\$ 13,869 <u>13,869</u>	
Total Minimum Lease Payments Less Amounts Representing	27,738	
Interest	<u>1,939</u>	
Present Value of Minimum Lease Payment	\$ <u>25,799</u>	

NOTE 7 - COMPENSATED ABSENCES

Changes in the Board's compensated absences during fiscal year 2005 were as follows:

					Amounts
					Expected to be
	Balance			Balance	Paid Within
	June 30, 2004	Additions	Reductions	June 30, 2005	One Year
Governmental Activities				<u> </u>	
Accumulated					
Sick Leave	\$ <u>155,529</u>	\$ <u>58,348</u>	\$ <u> -</u>	\$ <u>213,877</u>	\$ <u>32,081</u>

The accumulated sick leave liability will be liquidated by several governmental funds.

NOTE 8 - RETIREMENT PLANS

The Board's total payroll for the year was \$5,637,270. The payroll for employees covered under the following plans totaled \$5,519,086.

Kentucky Teachers' Retirement System

Certified employees participate in the Kentucky Teachers' Retirement System (KTRS), which is a cost sharing, multiple-employer retirement system created by and operating under Kentucky law.

The Kentucky Teachers' Retirement System covers all regular certified full-time employees of each school board. The plan provides for retirement, disability and death benefits. KTRS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the Kentucky Teachers' Retirement System, 479 Versailles Road, Frankfort, Kentucky 40601-3800.

Participating employees contribute 9.855% of creditable compensation. Matching contributions are made by the state. These on behalf payments are reflected in the Board's financial records and amounted to \$539,660 for 2005. The matching contributions are paid by the federal program for any salaries paid by that program. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems. The Board contributed 13.131% of the employee's compensation paid by federal programs for the fiscal year ended June 30, 2005.

NOTE 8 – RETIREMENT PLANS (Continued)

The Board's required contributions for pension obligations to KTRS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$410,463 (composed of \$2,682 from the Board and \$407,781 from the employees), \$398,652 and \$365,716, respectively; 100 percent has been contributed for fiscal years 2005, 2004 and 2003.

County Employees Retirement System

Employees who work an average of 100 hours per month participate in the County Employees Retirement System of Kentucky (CERS) which is a cost sharing, multiple-employer public employee's retirement system created by and operating under Kentucky Law.

The County Employees Retirement System covers substantially all regular non-certified full-time employees of each county and school board, and any additional local agencies electing to participate. The plan provides for retirement, disability and death benefits. CERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained in writing from the County Employee Retirement System, 1260 Louisville Road, Perimeter Park West, Frankfort, Kentucky, 40601.

Participating employees contribute 5.0% of the creditable compensation. Employer contribution rates are intended to fund the normal cost on a current basis plus one percent (1%) of unfunded past service costs per annum plus interest at the actuarial assumed rate. Such contribution rates are determined by the Board of Trustees of Kentucky Retirement Systems each biennium. The Board contributed 8.48% of the employee's compensation during the fiscal year ended June 30, 2005.

The Board's required contributions for pension obligations to CERS for the fiscal years ended June 30, 2005, 2004 and 2003 were \$189,256 (composed of \$117,133 from the Board and \$72,123 from the employees), \$160,960 and \$136,689, respectively; 100 percent has been contributed for fiscal years 2005, 2004, and 2003.

NOTE 9 - CONTINGENCIES

The Board receives funding from federal, state and local government agencies and private contributions. These funds are to be used for designated purposes only. For government agency grants, if the grantor's review indicates that the funds have not been used for the intended purpose, the grantors may request a refund of monies advanced or refuse to reimburse the Board for its disbursements. The amount of such future refunds and un-reimbursed disbursements, if any, is not expected to be significant. Continuation of the Board's grant programs is predicated upon the grantors' satisfaction that the funds provided are being spent as intended and the grantors' intent to continue their programs.

NOTE 10 – INSURANCE AND RELATED ACTIVITIES

The Board is exposed to various forms of loss of assets associated with the risks of fire, personal liability, theft, vehicular accidents, errors and omissions, fiduciary responsibility, etc. Each of these risk areas are covered through the purchase of commercial insurance. The Board has purchased certain policies that are retrospectively rated which include worker's compensation insurance.

NOTE 11 – RISK MANAGEMENT

The Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disaster. To obtain insurance for workers' compensation, errors and omission, and general liability coverage, the District participates in the Kentucky School Boards Insurance Trust Liability Insurance Fund. These public entity risk pools operate as common risk management and insurance programs for all school districts and other tax supported educational agencies of Kentucky who are members of the Kentucky School Boards Association. The district pays an annual premium to each fund for coverage. Contributions to the Worker's Compensation Fund are based on premium rates established by each fund in conjunction with the excess insurance carrier, subject to claims experience modifications and a group discount amount. Dividends may be declared, but are not payable until twenty-four months after expiration of the self-insurance term. The Liability Insurance Fund pays insurance premiums of the participating members established by the insurance carrier. The Trust can terminate coverage if it is unable to obtain acceptable excess general liability coverage and for any reason by giving ninety-day notices. In the event the Trust terminated coverage, any amount remaining in the Fund (after payment of operational and administrative costs and claims for which coverage was provided) would be returned to the member on a pro rata basis.

The Board purchases unemployment insurance through the Kentucky School Boards Insurance Trust Unemployment Compensation Fund; however, risk has not been transferred to such fund. In addition, the Board continues to carry commercial insurance for all other risks of loss, including the coverage listed in the supplemental schedule as listed in the table of contents. Settled claims resulting from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

NOTE 12 – TRANSFER OF FUNDS

The following transfers were made during the year:

From Fund	To Fund	Purpose	 <u>Amount</u>
General	Special Revenue	Miscellaneous	\$ 57,719

NOTE 13 - ON-BEHALF PAYMENTS

As amounts are paid by various state agencies on-behalf of the Board, the amounts are recognized as revenues and expenditures by the Board. On the Statement of Revenues, Expenditures and Changes in Fund Balance, the on-behalf payments are included with state revenue and are included in the functional expense classifications. On the Statement of Activities, the on-behalf payments are included in the functional expense classifications and are included with program operating grants and contributions for the respective functions. A summary of on-behalf payments during 2005 is as follows:

Payments Made by the State for Fringe Benefits of Board Employees – Included in the Following Functional Expense Classifications:

Instruction	\$	693,637
Supporting Services		
Student		120,632
Instructional Staff		22,619
District Administration		30,158
School Administration		22,618
Business		7,540
Plant Operation and Maintenance		67,856
Student Transportation		90,474
Food Service Operations	_	98,014
Total	\$ <u>1</u>	1,153,548

NOTE 14 – ON-BEHALF PAYMENTS (Continued)

Payments Made by the KSFCC for its Participation in the Board's Bonds – Included in Debt Service Expenditures

\$ 119,099

NOTE 15 - PRIOR PERIOD ADJUSTMENTS

The accompanying financial statements have been restated to correct an accumulated depreciation error made last year. Net assets at the beginning of 2004 have been adjusted for the effects of the correction. The error had no effect on the change in net assets.

The accompanying financial statements have been restated to correct an error in the posting of a debt payment. The fund balances at the beginning of 2004 have been adjusted for the effects of the correction. The error had no effect on the excess (deficit) of revenues and other financing sources over expenditures and other financing uses.



WALTON-VERONA BOARD OF EDUCATION COMBINING BALANCE SHEET NONMAJOR GOVERNMENTAL FUNDS June 30, 2005

		SEEK Capital Outlay Fund	_	Building (FSPK) Fund		Total Nonmajor Governmental Funds
Assets						
Cash and Cash Equivalents	\$	107,800	\$	5,998	\$	113,798
Accounts Receivable Taxes - Current						
Accounts		-		-		-
Intergovernmental - Indirect Federal		_		_		_
morgovommorna. manost i odora.	_		-		,	
Total Assets	\$_	107,800	\$	5,998	\$	113,798
Liabilities and Equity and Fund Balances						
Liabilities						
Accounts Payable	\$	-	\$	-	\$	-
Current Portion of Accumulated Sick Leave		-		-		-
Deferred Revenue	_		-		•	
Total Liabilities	_		-			
Fund Balances						
Reserved for						
Site Based Carryover		-		-		-
Unreserved						
Undesignated, Reported in						
General Fund		107,800		5,998		113,798
Construction Fund			-	<u>-</u>	•	-
Total Fund Balances	_	107,800	-	5,998	,	113,798
Total Liabilities and Fund Balances	\$_	107,800	\$	5,998	\$	113,798

WALTON-VERONA BOARD OF EDUCATION COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE NONMAJOR GOVERNMENTAL FUNDS Year Ended June 30, 2005

Revenues From Local Sources Taxes Property \$ - \$ 159,826 \$ 159,826 Motor Vehicle		C	SEEK apital Outlay Fund		Building (FSPK) Fund	Total Nonmajor Governmental Funds
Taxes Property \$ - \$ 159,826 \$ 159,826 Motor Vehicle				_		
Motor Vehicle - <						
Utilities -		\$	-	\$	159,826	\$ 159,826
Tuition and Fees Transportation Fees			-		-	
Transportation Fees Earnings on Investments			-		-	-
			-		-	-
			-		-	-
Intergovernmental - State 107,800 275,666 383,466	Intergovernmental - State		107,800		275,666	383,466
Intergovernmental - Indirect Federal	Intergovernmental - Indirect Federal	_		-		
Total Revenues 107,800 435,492 543,292	Total Revenues	_	107,800	_	435,492	543,292
Expenditures Current						
Instruction	Instruction		-		-	-
Support Services Student			_		_	_
Instructional Staff	Instructional Staff		-		-	-
District Administration School Administration			-		-	-
Business	Business		-		-	-
Plant Operation and Maintenance Student Transportation			-		-	-
Facilities Acquisition and Construction	Facilities Acquisition and Construction					
Site Improvement Debt Service - 461,389 461,389			-		461.389	- 461.389
Total Expenditures - 461,389 461,389				_		
Excess (Deficit) of Revenues Over Expenditures 107,800 (25,897) 81,903		_	107 800	_		
		_	107,000	-	(23,031)	01,905
Other Financing Sources (Uses) Proceeds from Sale of Bonds			_		_	-
Bond Issuance Cost and Fees	Bond Issuance Cost and Fees		-		-	-
Operating Transfers In Operating Transfers Out			-		-	-
Total Other Financing Uses	Total Other Financing Uses	_	_	_	_	_
Excess (Deficit) of Revenues and Other	Excess (Deficit) of Revenues and Other					
Financing Sources Over Expenditures and Other Financing Uses 107,800 (25,897) 81,903	Financing Sources Over Expenditures		107.800		(25.897)	81.903
Fund Balance July 1, 2004, as Originally Stated - (16,006) (16,006)		_	-	-		
Prior Period Adjustment 47,901		_				
Fund Balance July 1, 2004, as Restated - 31,895 31,895	Fund Balance July 1, 2004, as Restated	_	-	_		
Fund Balance June 30, 2005 \$ 107.800 \$ 5.998 \$ 113.798	Fund Balance June 30, 2005	\$	107.800	\$	5.998	\$ 113.798

WALTON-VERONA BOARD OF EDUCATION COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE SPECIAL REVENUE FUNDS

Year Ended June 30, 2005

	_					Federal IDEA		Teacher				Sub-Total
	_	Title I	_	IDEA B	_	Preschool	_	Quality	_	Other	_	Federal
Revenues												
Intergovernmental - State	\$	-	\$	-	\$	-	\$	-	\$	-	\$	-
Intergovernmental - Indirect Federal	_	169,551	_	215,728	-	25,696	-	70,750	_	57,695	_	539,420
Total Revenues	_	169,551	_	215,728	-	25,696	-	70,750	_	57,695	_	539,420
Expenditures												
Current												
Instruction		169,551		215,728		-		70,750		57,695		513,724
Support Services												
District Administration		-		-		-		-		-		-
School Administration		-		-		-		-		-		-
Student Transportation	_	-	<u> </u>		_	25,696	_	-	_	-	_	25,696
Total Expenditures	_	169,551	_	215,728	_	25,696	-	70,750	_	57,695	_	539,420
Deficit of Revenues Over Expenditure	_	-	. <u>-</u>		_		_		_		_	-
Other Financing Sources												
Miscellaneous		-		-		-		-		-		-
Operating Transfers In (Out)	_	-	_		_		-	<u>-</u>	_		_	
Total Other Financing Sources	_	-	_		_		-	-	_		_	
Excess of Revenues and Other Financing Sources Over Expenditures	_	-	. <u>-</u>		_		_	-	_	-	_	-
Fund Balance July 1, 2003	_	-	_	-	_	-	_	-	_	-	_	-
Fund Balance June 30, 2004	\$_	-	\$_		\$		\$	-	\$_		\$	-

WALTON-VERONA BOARD OF EDUCATION COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE SPECIAL REVENUE FUNDS Year Ended June 30, 2005

			State						Total									
	Sub-Tota Federal		Extended School Services	_	Gifted & Talented		KERA Preschool		Professional Development	-	Education Technology	_	Safe Schools	Textbooks		Other	_	Special Revenue Funds
Revenues																		
Intergovernmental - State	\$		\$ 20,975	\$	21,744	\$	100,485	\$	22,622	\$	(6,724)	\$	29,419	\$ 41,837	\$	-	\$	230,358
Intergovernmental - Indirect Federal	539,420)		-				-				-			_		_	539,420
Total Revenues	539,420)	20,975	-	21,744		100,485	-	22,622		(6,724)	-	29,419	41,837	_		_	769,778
Expenditures																		
Current																		
Instruction	513,724	1	20,103		21,744		100,485		14,458		43,975		12,341	41,837		-		768,667
Support Services		•																
District Administration		•	-		-		-		8,164		7,020		-	-		-		15,184
School Administration		•	-		-		-		-		-		-	-		-		-
Student Transportation	25,696	<u> </u>	872	-			-	-	-			-	17,078		_		_	43,646
Total Expenditures	539,420)_	20,975	_	21,744		100,485	-	22,622		50,995	-	29,419	41,837	_		_	827,497
Deficit of Revenues Over Expenditure		_		_				-			(57,719)	-			_		_	(57,719)
Other Financing Sources Operating Transfers In		_		_			<u>-</u>	-	<u> </u>		57,719	_			_		_	57,719
Total Other Financing Sources		_		_				-		-	57,719	_			_		_	57,719
Excess of Revenues and Other Financing Sources Over Expenditures		<u>. </u>		-				-		-		-			_	<u>-</u>	_	
Fund Balance July 1, 2003		_		_	-			-	<u>-</u>			-			_		_	
Fund Balance June 30, 2004	\$	<u>. </u>	\$	\$_	_	\$		\$		\$		\$		\$ S	\$_		\$_	

WALTON-VERONA BOARD OF EDUCATION STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES WALTON-VERONA HIGH SCHOOL ACTIVITY FUND Year Ended June 30, 2005

Fund Accounts		Cash Balances July 1, 2004		Receipts	<u>-</u>	Disbursements	·	Cash Balances June 30, 2005	•	Accounts Receivable		Accounts Payable	-	Fund Balances June 30, 2005
Agriculture	\$	1,325	\$	475	\$	761	\$	1,039	\$; -	\$	_	\$	1,039
Business Fund	Ψ	422	Ψ	974	Ψ	759	Ψ	637	_	_	Ψ	-	Ψ	637
English		261		550		570		241		_		_		241
AP Classes		158		3,168		3,084		242		_		_		242
Health		519		200		263		456		_		_		456
Family Conscience		83		2,893		2,878		98		_		_		98
Math		615		1,265		697		1,183		_		_		1,183
Physical Education		953		5,123		4,576		1,500		_		_		1,500
Wellness Center		-		836		186		650		_		_		650
Science Fund		72		1,224		1,267		29		_		_		29
Social Studies		409		300		326		383		_		_		383
Spanish		409		413		219		194		-		-		363 194
-		376		478		496		358		-		-		358
Spanish Club W-V Ornaments		3/6						115		-		-		336 115
		108		2,329 677		2,214 488		297		-		-		297
Special Education										-		-		
Band Trin		136		1,846		1,732		250		-		-		250
Band Trip		103		3,000		3,069		34		-		-		34
Band Boosters		-		10,654		10,639		15		-		-		15
Choral Music		9		1,415		1,423		1		-		-		1
General Music		86		250		294		42		-		-		42
Athletics		2,396		41,639		38,568		5,467		-		-		5,467
Golf		-		335		323		12		-		-		12
Regional Volleyball				1,973		1,973		-		-		-		-
Athletic Boosters		1,903		15,985		15,013		2,875		-		-		2,875
Instructional		38		5,800		5,828		10		-		-		10
Girls Soccer		268		1,982		2,125		125		-		-		125
Boys Soccer		721		1,760		700		1,781		-		-		1,781
Baseball		5,599		28,902		30,837		3,664		-		-		3,664
Track		301		2,933		2,938		296		-		-		296
Softball		575		1,640		1,615		600		-		-		600
District Softball		15		-		15		-		-		-		-
Cross Country		2,661		6,418		6,342		2,737		-		-		2,737
Varsity Cheer		2,162		11,717		12,444		1,435		-		-		1,435
Junior High Cheerleaders		534		1,598		1,483		649		-		-		649
Girls Basketball		3,850		27,415		21,575		9,690		-		-		9,690
Junior High Girls														
Basketball		7,519		4,105		11,624		-		-		-		-
FCA		229		621		789		61		-		-		61
Basketball		2,776		14,919		8,508		9,187		-		-		9,187
Art Club		262		391		447		206		-		-		206
Art Fund		479		2,930		3,216		193		-		-		193
Beta Club		43		1,767		1,788		22		-		-		22
FBLA		843		2,951		3,221		573		-		-		573
FFA		3,436		10,563		11,395		2,604		-		-		2,604
FCCLA		2,470		17,095		18,450		1,115		-		-		1,115
TSA		118		3,009		3,127		-		_		-		-
Graphic Comm		223		5		70		158		-		-		158

(Continued)

WALTON-VERONA BOARD OF EDUCATION STATEMENT OF RECEIPTS, DISBURSEMENTS AND FUND BALANCES WALTON-VERONA HIGH SCHOOL ACTIVITY FUND Year Ended June 30, 2005

	Cash Balances July 1,			Cash Balances June 30,	Accounts	Accounts	Fund Balances June 30,
Fund Accounts	2004	Receipts	Disbursements	2005	Receivable	Payable	2005
Industrial Tech	880	7,130	7,575	435	-	-	435
Junior Beta	861	994	1,066	789	-	-	789
Y Club	365	8,120	8,382	103	-	-	103
Drama	229	1,680	1,308	601	-	-	601
Theatre	35	1,621	1,529	127	-	-	127
Freshman Class	691	-	-	691	-	-	691
Sophomore Class	886	1,210	1,178	918	-	-	918
Junior Class	739	4,628	4,161	1,206	-	-	1,206
Project Prom	3,012	8,263	8,702	2,573	-	-	2,573
Senior Class 04-05	-	7,649	7,649	· <u>-</u>	_	-	· -
Junior High	_	2,021	1,931	90	_	-	90
Yearbook	2,641	21,522	15,160	9,003	-	-	9,003
Concession Fund	9,745	9,704	11,583	7,866	_	_	7,866
School Climate Fund	1,614	1,944	3,455	103	_	_	103
Garrett Peterson	1,056	500	500	1,056	_	_	1,056
General Fund	2,221	28,196	26,965	3,452	_	-	3,452
John Frilling	2,740	-	1,025	1,715	_	_	1,715
Guidance Fund	385	837	514	708	_	-	708
Library Fines	446	1,794	2,085	155	_	_	155
Media	1,637	707	945	1,399	_	_	1,399
Library Printing	251	15	169	97	_	_	97
N.K.O.A.	225	300	264	261	_	_	261
Parking Permit	618	520		1,138	_	_	1,138
Quest Program	2.960	6,776	6,670	3,066	_	_	3,066
Flower Fund	-	485	481	4	_	_	4
Technology Club	855	303	<u>-</u>	1,158	_	_	1,158
STLP	712	150	150	712	_	_	712
DJJ Funds	704	-	70	634	_	_	634
Landscape	1,926	3,043	4,970	-	_	_	-
Textbooks	1,275	49,568	50,025	818	_	_	818
Workbooks	56	1,277	1,108	225	_	_	225
Academic Scholarship	-	-,	-,	-	_	_	
Kendal Smith	9,517	2,904	11,000	1,421	_	_	1,421
Les Stephens	-,	500	500	-,	-	_	-,
Club Scholarship		355	350	5	<u>-</u> _		5
Total	\$ 94,338	\$ 421,239	\$ 421,825	\$ 93,753	\$ - 9	5 - 5	93,753

WALTON-VERONA BOARD OF EDUCATION STATEMENT OF RECEIPTS, DISBURSEMENTS, AND FUND BALANCES WALTON-VERONA ELEMENTARY SCHOOL ACTIVITY FUND Year Ended June 30, 2005

Fund Accounts		Cash Balances July 1, 2004	 Receipts	Disbursements		Cash Balances June 30, 2005	Accounts Receivable	Accounts Payable	_	Fund Balances June 30, 2005
General Fund	\$	13,357	\$ 70,730	\$ 73,323	\$	10,764	\$ - \$	-	\$	10,764
Grants		-	-	-		-	-	-		-
Student Incentives		419	-	-		419	-	-		419
Concessions		-	-	-		-	-	-		-
School Climate		3,664	-	-		3,664	-	-		3,664
Carroll		28	-	-		28	-	-		28
Conatser		62	-	-		62	-	-		62
Christy		71	-	10		61	-	-		61
Dingus		167	_	77		90	-	-		90
Dykes		68	-	60		8	-	-		8
Fish		22	-	-		22	-	-		22
Hackman		26	_	26		_	_	_		_
Hartman		80	_	80		_	_	_		_
Hengehold		144	_	144		_	_	_		_
Hiatt		9	_	9		_	_	_		_
Hicks		7	_	-		7	_	_		7
Kemper		1,905	_	_		1,905	_	_		1,905
McIntyre		57	_	11		46	_	_		46
McNeil		171		75		96	_	_		96
Nargessi		11	_	75		11	_	_		11
Tuel		79	-	-		79	-	-		79
Pozderac		135	-			135	-	-		135
Preisler		79	-	-		79	-	-		79
			-				-	-		
Recker		71	-	49		22	-			22
Rodgers, K.		50	-	47		3	-	-		3
Rogers, C.		68	-	14		54	-	-		54
Rowekamp		129	-	51		78	-	-		78
Ryan		100	-	79		21	-	-		21
Ryder		6	-	-		6	-	-		6
Schickling		36	-	27		9				
Sisson		31	-	-		31	-	-		31
Smith		28	-	28		. -	-	-		-
Smith		45	-	-		45	-	-		45
Turner		100	-	-		100	-	-		100
Tuemler		70	-	40		30	-	-		30
Cook		160	-	-		160	-	-		160
Wilson		10	-	10		-	-	-		-
NKOA		163	300	462		1	-	-		1
Accelerated Reader		16	-	-		16	-	-		16
Bookstore		215	200	324		91	-	-		91
Library		-	-	-		-	-	-		-
Intramurals		97	7,945	8,042		-	-	-		-
Space Camp - 4th Grade		-	39,845	37,560		2,285				
Y Club		2,185	4,843	6,022		1,006	-	-		1,006
EAF		1,682	1,935	2,066		1,551	-	-		1,551
Music	_	176	 180	269	•	87			-	87
Total	\$_	25,999	\$ 125,978	\$ 128,905	\$	23,072	\$\$	·	\$	23,072

WALTON-VERONA BOARD OF EDUCATION BOARD MEMBERS AND ADMINISTRATIVE PERSONNEL June 30, 2005

<u>Name</u>	Address	Term Expires
Bill Wethington Chairman	13724 Walton-Verona Road Verona, Kentucky	December 31, 2005
John Daugherty	5 North Main Street Walton, Kentucky	December 31, 2006
Shirley Cummins	1330 Eades Road Verona, Kentucky	December 31, 2006
Kelly Fulmer	13 Park Avenue Walton, Kentucky	December 31, 2005
Walt Ryan	15329 Lebanon-Crittenden Road Verona, Kentucky	December 31, 2006

Other Officers of the Board (As of June 30, 2005):

Superintendent and Secretary to the Board of Education William Boyle

Gene Kirchner **Deputy Superintendent**

Claudia Coleman Treasurer

WALTON-VERONA BOARD OF EDUCATION SCHEDULE OF INSURANCE June 30, 2005

Fire and Extended Coverage 90% Coinsurance:	Amount of Policy	Insurance Payable to		Expires
Real and Personal Property Building and Contents: Walton-Verona High School Walton-Verona Elementary Agricultural Building Physical Education Building Administration Greenhouse	\$18,007,659	City of Walton, Kentucky and Walton-Verona Board of Education		6/30/2005
Other Coverage				
School Bus and Auto Fleet Policy	\$ 500,000 - Underinsured Motorist \$ 500,000 - Uninsured Motorist \$ 2,000,000 - Combined Single Limit			6/30/2005
Educators' Legal Liability - Board Members, Superintendent, and All School Employees	\$ 1,000,000 - Occurrence \$ 1,000,000 - Aggregate			7/1/2005
Comprehensive General Liability	\$ 1,000,000 - Occurrence \$ 2,000,000 - Aggregate \$ 5,000,000 Umbrella for KISBIT General Liability, Educators' Legal Liability and Fleet			7/1/2005
Women's' Compensation	Statutory			1/1/2006
Fidelity Bonds				
Company	Person Covered	Covered	Туре	Amount
Old Republic	Kelly Whalen Mary Jo Mitchell	01/01/2004 to 03/01/2005	Bond	\$ 5,000
Insurance Company of North America	Claudia Coleman Treasurer	06/30/2004 to 06/30/2005	Bond	\$ 893,144

U.S. Bank of Walton, Kentucky has pledged \$4,354,258 of bonds and securities as bond for the depository of public funds of the Walton-Verona Board of Education

WALTON-VERONA BOARD OF EDUCATION SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS Year Ended June 30, 2005

Federal Grants/ Pass-Through Grantor/ Program Title	Federal CFDA Number	Pass Through Grantors Number	<u>Di</u>	sbursement
U.S. Department of Agriculture				
Passed through State Department of Agriculture				
Food Distribution - Value of Commodities ^	10.550	N/A	\$	22,140
Passed through State Department of Education				
National School Lunch	10.555	575-01-02		100,927
National School Breakfast	10.553	576-02-05		29,942
Total U.S. Department of Agriculture			\$	153,009
U.S. Department of Education				
Passed through State Department of Education				
Title I	84.010	0351-05-01	\$	169,551
Education of the Handicapped, Part B - Title VI	84.027	0581-05-02		215,728
Drug Free Schools and Communities - Title IV	84.186	0590-05-02		7,331
Preschool Early Childhood	84.173	0587-05-02		25,696
Technology Prep	84.243	5463-05-60		17,500
Title VI	84.298	0533-05-02		19,420
Tech Literacy Challenge	84.318			13,444
Teacher Quality Title IIA	84.336	4013-05-02		70,750
Total U.S. Department of Education			\$	539,420
Grand Totals			\$	692,429

[^] Non-monetary assistance is reported in the schedule at the fair market value of the commodities received and disbursed.

See auditors' report and accompanying notes.

WALTON-VERONA BOARD OF EDUCATION NOTES TO THE SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

NOTE 1 – BASIS OF PRESENTATION

The accompanying schedule of expenditures of federal awards includes the federal grant activity of the Walton-Verona Board of Education and is presented on the basis of accounting described in Note 2 of the financial statements. The information in this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of the basic financial statements.

NOTE 2 – FOOD DISTRIBUTION

Non-monetary assistance is reported in the schedule at the fair value of the commodities received and disbursed. At June 30, 2005, the Board had no commodities in inventory.



INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

State Committee for School District Audits Walton-Verona Board of Education Walton, Kentucky

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and aggregate remaining fund information of the Walton-Verona Board of Education as of and for the year ended June 30, 2005, which collectively comprise the Walton-Verona Board of Education's basic financial statements and have issued our report thereon dated September 15, 2005. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and the audit requirements included as an appendix to the state audit contract.

Internal Control over Financial Reporting

In planning and performing our audit, we considered the Walton-Verona Board of Education's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Compliance

As part of obtaining reasonable assurance about whether the Walton-Verona Board of Education's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

In addition, the results of our tests disclosed no instances of noncompliance of specific state statutes or regulations identified in Appendix II (9)(a)-(w) of the state audit contract that are required to be reported under *Government Auditing Standards*.

State Committee for School District Audits Walton-Verona Board of Education Page Two

This report is intended solely for the information and use of management, the Kentucky Department of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

VonLehman & Company Inc.

Fort Mitchell, Kentucky September 15, 2005



INDEPENDENT AUDITORS' REPORT ON COMPLIANCE WITH REQUIREMENTS APPLICABLE TO EACH MAJOR PROGRAM AND INTERNAL CONTROL OVER COMPLIANCE IN ACCORDANCE WITH OMB CIRCULAR A-133

State Committee for School District Audits Walton-Verona Board of Education Walton, Kentucky

Compliance

We have audited the compliance of the Walton-Verona Board of Education with the types of compliance requirements described in the *U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement* that are applicable to each of its major federal programs for the year ended June 30, 2005. Walton-Verona Board of Education's major federal programs are identified in the summary of auditor's result section of the accompanying schedule of findings and questioned costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to each of its major federal programs is the responsibility of the Board's management. Our responsibility is to express an opinion of the Board's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A- 133, "Audits of States, Local Governments, and Non-Profit Organizations;" and the audit requirements included as an appendix to the state audit contract. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the Board's compliance with those requirements and performing such other procedures, as we considered necessary in the circumstances. We believe that our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the Walton-Verona Board of Education's compliance with those requirements.

In our opinion, the Walton-Verona Board of Education complied, in all material respects, with the requirements referred to above that are applicable to each of its major federal programs for the year ended June 30, 2005.

Internal Control Over Compliance

The management of the Walton-Verona Board of Education is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the Walton-Verona Board of Education's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

State Committee for School District Audits Walton-Verona Board of Education Page Two

Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that noncompliance with applicable requirements of laws, regulations, contracts and grants caused by error or fraud that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over compliance and its operation that we consider to be material weaknesses.

This report is intended solely for the information and use of management, the Kentucky Department of Education and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

VonLehman & Company Inc.

Fort Mitchell, Kentucky September 15, 2005

WALTON-VERONA BOARD OF EDUCATION SCHEDULE OF FINDINGS AND QUESTIONED COSTS Year Ended June 30, 2005

SECTION 1 – SUMMARY OF AUDITORS' RESULTS

FINANCIAL STATEMENTS	
Type of Financial Statement Opinion	Unqualified
Was there any material control weakness	
conditions reported at the financial statements	
level (GAGAS)?	No
Were there any other reportable control	
weakness conditions reported at the financial	
statement level (GAGAS)?	None Reported
Was there any reported material	
noncompliance at the financial statement level	No
(GAGAS)?	
FEDERAL AWARDS	
Was there any material internal control	
was there any material internal control weakness conditions reported for major federal	
programs?	No
Were there any other reportable conditions	
identified, not considered to are material	
weaknesses reported for major programs?	None Reported
Type of Major Programs Compliance Opinion	Unqualified
Is there any audit findings disclosed that are	
required to be reported in accordance with	
Circular A-133, Section .510?	No
Major Programs (list):	IDEA Part B [CFDA 84.027 and 84.173]
	National School Breakfast and Lunch
	[CFDA: 10.553 and 10.555]
Dollar Threshold: Type A/B Programs	Type A: > \$300,000
	Type B: > all others
Low Risk Auditee?	No

SECTION II – FINANCIAL STATEMENT FINDINGS

No matters to be reported.

SECTION III – FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters to be reported.

WALTON-VERONA BOARD OF EDUCATION SCHEDULE OF STATUS OF PRIOR YEAR FINDINGS AND QUESTIONED COSTS Year Ended June 30, 2005

PRIOR YEAR - FINANCIAL STATEMENT FINDINGS

No matters were reported.

PRIOR YEAR - FEDERAL AWARD FINDINGS AND QUESTIONED COSTS

No matters were reported.



Walton-Verona Board of Education Walton, Kentucky

In planning and performing our audit of the financial statements of Walton-Verona Board of Education for the year ended June 30, 2005, we considered the Board's internal controls in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements.

During the course of our audit we select samples of activity for our auditing tests. Through these procedures we became aware of a few matters that are opportunities for strengthening internal controls and operating efficiency. The following summarizes our comments and suggestions regarding these matters. We previously reported on the Board's internal controls in our report dated September 15, 2005. This letter does not affect our report dated September 15, 2005 on the financial statements of the Walton-Verona Board of Education.

Our findings are presented as follows:

ITEM 01 - ACTIVITY FUNDS

Walton-Verona High School

No Findings.

Walton-Verona Elementary School

No Findings.

ITEM 02 - SPECIAL REVENUE FUND and BUILDING FUND

Both the Special Revenue Fund and the Construction Fund have negative cash balances at June 30, 2005. Transfers should be made at year-end from the General Fund to cover these negative amounts.

Management's Response

Every effort will be made in the future to evaluate ending balances in all funds to make sure transfers of monies from the General Fund to cover negative amounts are made.

ITEM 03- GOVERNMENTAL and FOOD SERVICE ASSETS

With the implementation of GASB 34, the Board must track all fixed asset additions with a historical cost exceeding \$1,000. These assets should be flagged in MUNIS. While a number of fixed assets additions for the year ended June 30, 2005 were flagged in the system, we noted over \$2,300,000 in additions that were not properly coded in MUNIS. All fixed asset purchases over \$1,000 should be properly marked in the system.

Management's Response

Beginning with the 2006 fiscal year, fixed assets are being tracked more accurately and the problems from the previous fiscal year should be avoided. Hopefully, all assets with costs exceeding the \$1,000 cost will be flagged in MUNIS and no further problems will result.

Walton-Verona Board of Education Walton, Kentucky Page Two

ITEM 04 - SALES TAX

During our review of various invoices, it was noted that sales tax was incorrectly paid on several invoices. Although it may be a cumbersome task to review invoices, it should be a priority to review every invoice to ensure that sales tax is not incorrectly paid.

Management's Response

We will review each invoice as it is paid to ensure sales tax is not incorrectly paid.

We want to express our appreciation to the Superintendent, William Boyle, the Board staff and the school secretaries for their courteous assistance during the audit.

VonLehman & Company, Inc.

Fort Mitchell, Kentucky September 15, 2005